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PP RUEHWEB

DE RUEHSG #2403/01 3211941  
ZNY CCCCC ZZH  
P 171941Z NOV 06  
FM AMEMBASSY SANTIAGO  
TO RUEHC/SECSTATE WASHDC PRIORITY 0398  
INFO RUEHAC/AMEMBASSY ASUNCION PRIORITY 2732  
RUEHBR/AMEMBASSY BRASILIA PRIORITY 3395  
RUEHBU/AMEMBASSY BUENOS AIRES PRIORITY 3318  
RUEHCV/AMEMBASSY CARACAS PRIORITY 1181  
RUEHLP/AMEMBASSY LA PAZ NOV 4903  
RUEHPE/AMEMBASSY LIMA PRIORITY 4815  
RUEHMN/AMEMBASSY MONTEVIDEO PRIORITY 3438  
RHMCSSU/FBI WASHINGTON DC PRIORITY  
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C O N F I D E N T I A L SANTIAGO 002403

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TREASURY FOR JASPER HOEK AND FINCEN FOR JENNIFER SHOWELL

E.O. 12958: DECL: 11/17/2016

TAGS: EFIN PGOV PTER SNAR CI

SUBJECT: CHILE GAMBLING ON CASINO EXPANSION

REF: SANTIAGO 2005

Classified By: DCM Emi Lynn Yamauchi for reasons 1.4 (B&D)

¶11. (C) Summary. Chile hopes to attract more tourism by expanding its casino industry to a total of 22 casinos by ¶2008. The GOC has vetted bidding casinos for ties to organized crime before granting contracts. However, there appears to be little thought given to the potential increase in crime and organized criminal enterprises associated with casinos. The head of Chile's Financial Intelligence Unit believed "it would be impossible to launder money through Chile's casinos." End summary.

Growth in the Casino Industry

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¶12. (U) Talk of developing the tourist industry in Chile has become more frequent among government officials and businessmen as Chileans have recognized a need for diversification in their economy (reftel A). The first casino was established in Chile in 1931. Since 1990, seven casinos have been operating. In 2005, the GOC, under Law 19.995, legalized the establishment of up to 24 casinos in the country. This law created the Superintendence of Casinos (SCJ) to control and monitor the further growth of the industry. Francisco Leiva, the head of the SCJ, worked for GAFISUD (International Financial Action Group of South America, a South American Financial Action Task Force-type body) before taking this position. He has been particularly careful in inspecting casinos companies applying for contracts in Chile. Forty companies bid on the slots for casino expansion. The SCJ approved ten bids, and is still deciding on five others. These 15 hope to begin operating in 2008, increasing the number of functioning casinos in Chile to 22.

U.S. Company Complaint

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¶13. (C) U.S. company Pinnacle is being considered for a casino contract. Another U.S. casino company, Thunderbird Group, whose bids on building casinos in Chile were turned down, has filed a suit in the Chilean courts. Thunderbird claims the bidding process was unfair, and that the SCJ held Thunderbird to different standards than other companies. On October 27, the courts put a hold on the licensing of casinos in one of the regions in which Thunderbird had bid, pending resolution

of the case, "in order to preserve the rights of Thunderbird Group," reported the Chilean newspaper El Mercurio. A Santiago court is currently examining the bidding process, and has not yet ruled on whether the process was prejudiced against Thunderbird. (Note: USG law enforcement agencies at Post believe the SCJ is doing an adequate job in processing bidding companies. There is no indication that Thunderbird was unfairly excluded. End Note).

#### The Gamble

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¶4. (C) In a meeting with E/POLOff, Victor Ossa, Director of the Unidad de Analisis Financiero, Chile's FIU, stated, "Unlike in the United States, it is impossible to launder money through casinos in Chile because we do not issue a receipt for cashed-in chips. So, a person cannot produce a receipt saying he won money at the casino." E/POLOff pointed out that since no receipts were issued for winners at casinos, someone could falsely claim to have won money at a casino, thereby providing a way to launder money. After a 15-minute discussion of how one might use a Chilean casino to launder money, Ossa conceded it was possible.

¶5. (U) Efforts thus far to guard against money laundering through casinos have focused on the approval process for casino companies applying to build in Chile. Leiva highlighted the scrutiny applied to each casino company board member to ensure there are no known ties to organized crime or suspicious activity. Any change in the board members of any casino organization with a casino in Chile subjects it to a renewed clearance process. An anti-money laundering law (Law 19.913, article 3) requires that casinos report any suspicious operations in casinos to the FIU. Casinos keep records and issue receipts for any money exchange over the approximate equivalent of \$12,000. Casinos do not, however, issue receipts or record customer wins. Leiva expressed concern that, while casinos are regulated and under the supervision of the superintendency he leads, other gaming industries -- such as horse racing -- are not regulated. The lack of supervision clearly increases the vulnerability of these other industries to money laundering.

¶6. (SBU) Leiva outlined plans for additional training of casino employees and his own staff at the SCJ over the next two years to prepare them to operate casinos. E/POLOff pointed out that prostitution, extortion and loan sharking often increase with the advent of casinos. When asked what Chile had done to prepare for any increase in crime associated with casino expansion, Leiva replied that the opening of the casinos was still at least 15 months away, so the topic had not been discussed.

#### Comment

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¶7. (C) A sudden increase from seven casinos to 22 is a risky gamble. Demand for such a large number of casinos is questionable, which may explain why none of the major world casino companies (e.g. Caesar's, Harrah's) bid on the contracts. Leiva's review of foreign bidding companies has enabled him to eliminate suspicious companies, when counterpart law enforcement agencies warned SJC of convictions or investigations. However, not all countries' law enforcement agencies supplied equally thorough information on those companies bidding.

¶8. (C) Comment continued: It appears the GOC has not considered the possibility that small casino companies below the radar of law enforcement in their country of origin might win contracts and build with the intention of supplementing their casino profits through laundering money. This naive, pervasive attitude -- Chile is too isolated from the world to be subject to transnational crimes -- has influenced the casino expansion process as well. It is disturbing, for example, that the director of Chile's FIU had not considered how money laundering might occur through casinos. Casinos may provide a boost to Chile's tourist industry, but may also

bring problems Chile will not be proactive enough to handle.  
KELLY